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SUBJECT: Treasury DG Domenico Siniscalco Appointed New
Economy and Finance Minister

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SUMMARY

1. (SBU) After two weeks' debate within the Coalition following former Finance Minister Tremonti's resignation, PM Berlusconi appointed Domenico Siniscalco, Treasury Department Director General since 2001, as new Finance Minister on July 16. Over this two-week period, Coalition parties could not agree upon a political Minister with real clout. Thus, they fell back upon a technocratic solution, albeit a very good one, since Siniscalco is an excellent economist and well and favorably known to the Embassy.

2. (SBU) He will probably continue Tremonti's policies, but in a less confrontational manner - and provide the sense of collaboration in financial decision making that other Coalition parties had been seeking in Tremonti, but had not found. Despite PM Berlusconi's eventual success in having selected a new Finance Minister and having kept his coalition intact, Italy nonetheless still faces painful financial decisions to bring Italy clearly within European Monetary Union (EMU) guidelines on budget deficits and to bring down Italy's large stock of public debt, still 106 percent of GDP, one of the highest in the world. End summary.

THE NEW ECONOMY MINISTER

3. (U) Domenico Siniscalco, an economist born in Turin in 1954, received a law degree from the University of Turin and a PhD in economics from the University of Cambridge in 1989. He is Professor of Economics at the University of Turin (on leave), after lecturing previously at Luiss Rome University, University of Cagliari, Johns Hopkins University, University of Cambridge and Catholic University of Louvain (CORE).

4. (U) Siniscalco was appointed Treasury Director General (DG) in October 2001. (Note: The Ministry of Economy and Finance has five departments, of which the Treasury is the first and most prestigious. End note.) Prior to this appointment he served on the board of numerous publicly listed firms, among which are ENI (Italy's energy conglomerate) and Telecom Italia. He is also author of over 90 publications on privatization, environmental economics, and industrial organization, published in respected journals (among them, European Economic Review, Journal of Public Economics, and Resource Economics). He has also been a columnist in the leading financial daily, Il Sole 24 Ore, and member of the Swedish Academy of Sciences and of the Royal Institute of International Affairs (London).

5. (U) Like his predecessor as Minister, Siniscalco acquired vast experience in policy-making and in government economics during almost fifteen years of service, in first governments of the left and later, of the right. Siniscalco was one of the economic advisors to two center-left Prime Ministers, Giuliano Amato and Massimo D'Alema. He is also well connected with Italy's industrial and financial sectors. He is a long-time friend of FIAT President and Confindustria President, Luca Cordero di Montezemolo, and of the president of Mediobanca, Gabriele Galateri.

WHAT PROBLEMS DOES SINISCALCO FACE?

6. (U) Italy's GDP, which grew 0.3 percent last year, is expected to grow only between one and 1.3 percent this year and roughly two percent in 2005. Without severe budget cuts, Italy's deficit next year could exceed four percent of GDP, a level that could bring heavy sanctions (i.e., an

"early warning" from the European Commission) and further credit downgrades from international ratings firms beyond that just announced by Standard and Poor's. The IMF has also called on Italy to implement budget cuts of 20 billion

euro in 2005 to reduce the deficit/GDP ration from their estimate of four to 2.5 percent. Siniscalco will also have to revive a languishing privatization program to help reduce the public debt/GDP ratio that is now 106 percent of GDP, the highest in Europe and the third largest in the world.

WHAT BUREAUCRATIC TALENT DOES HE BRING TO THE TABLE?

17. (U) As the former Director General of the most important directorate general in the Finance Ministry, Siniscalco has worked at Tremonti's right hand since 2001. For this reason, some see him as the only person now who could pick up the Finance Ministry's critical work without having to stop to learn the process. Siniscalco's immediate priority will be his presentation to the Cabinet of the 2005-2008 Documento di Programmazione Economica e Finanziaria (Economic and Financial Planning Document - or DPEF), a four-year economic plan setting forth economic/budgetary goals for each year through 2008 (ref A).

DOES HE HAVE COALITION SUPPORT?

18. (SBU) Two of the four Coalition parties, the National Alliance (AN) and the Union of the Christian Democrats of the Center (UDC), supported PM Berlusconi's choice as promising greater collaboration in economic policymaking. (Deputy Prime Minister/AN president Fini had been critical of the lack of "collegiality" in economic policy-making under Tremonti.)

19. (SBU) Another coalition partner, the Northern League, was less enthusiastic about Siniscalco's appointment - primarily because it followed Tremonti's resignation. League leader Umberto Bossi had forged a close alliance with Tremonti, and the League considered Tremonti a guarantee that the party's political program - in particular, federalism and increased autonomy for northern Italy - would receive close attention at the top of the government. There are some indications that the League might retaliate for Tremonti's ouster by resisting reform of the state pension system, an important step to stabilizing Italy's public finances. This vote is key, because financial markets view pension reform as essential to bringing Italy's public finances under control.

COMMENT

10. (SBU) We have had the chance to work closely with Siniscalco, who, as Chair of the inter-ministerial Financial Security Committee, was responsible for Italy's pro-active interdiction of terrorist finance. In all cases, we have found him very forthcoming and aggressive on this issue.

11. (SBU) The appointment of Siniscalco may have restored some confidence in the Berlusconi government after two weeks of political turmoil following Tremonti's resignation - and the appointment should provide assurances that a professional is in charge of economic policy. However, in his current position, Siniscalco's challenge will be as much how he navigates roiled coalition waters as how successfully he steers Italy's economic policy. His background as a civil servant, rather than a politician, may stand him in good stead as he seeks to placate -- and control, if ever so delicately -- disparate political masters with strong populist interests. While it can be seen as a weakness, his lack of a political power base may also be a strength.

12 (SBU) Still uncertain, however, is whether Siniscalco will manage GOI economic policy for the next two years and help Italy make the necessary painful financial decisions or whether he will just be a caretaker for the 2005 budget cycle, set up to take the blame for necessary unpopular spending cuts. End comment.

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